The following are supplemental comments offered by Green Mountain Power Corporation regarding the Cost Analysis Subgroup report delivered in the docket 7523 deliberations.

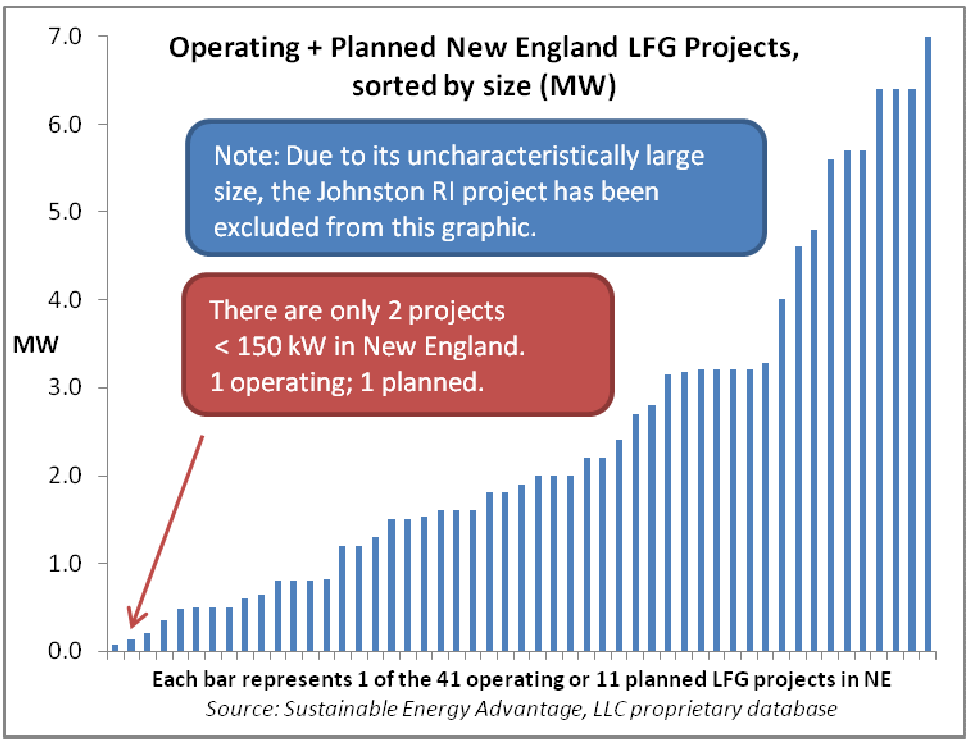
First, the collegiality demonstrated on the subcommittee deserves recognition. The subcommittee was made up of a group of professionals with diverse backgrounds and interests. The committee was lead by Board staff member Riley Allen who kept the process on track and provided strong leadership. The work of the group is embodied in a complete report; we should be mindful that the time frame provided to complete the work was extraordinarily short. Vermont will be committing to long term contracts and costs will be born by Vermont's electric customers. We should act carefully to ensure that contract pricing encourages the most efficient projects that utilize all available cost reduction opportunities. These cost-reduction opportunities include grants, income tax advantage, economies of scale, and optimal generation sites. For the protection of our customers, we urge the Board to use caution during the initial rate-setting process.

If the initial rates are set too high, the consumers of electric power will subsidize projects that are less efficient and will provide investors with returns higher than the legislation intended. If the prices are set too low, developers will not respond. It will be easier to resolve the issue of too low pricing than pricing that is too high, because prices can be increased quickly to encourage more development. The converse is not true: If prices are too high, developers who respond will be guaranteed high prices for the long term, adversely impacting electric customers.

We agree with the Department's comments that least cost principles should prevail. At this point in the evaluation process, we have not had adequate time to determine least cost in the various renewable technologies. GMP's technology-specific comments are listed below.

Landfill Gas

Landfill Gas should be broken into at least two sizes, due to scale economies. Our primary concern is that to the extent landfill gas projects are built in Vermont, most of the capacity and production will be associated with larger projects - featuring much lower cost structures - than the micro-scale project size that was used to develop the landfill gas technology cost estimates in the cost report. For context, Sustainable Energy Advantage ("SEA"), a consulting firm that specializes in renewable energy markets and policy, maintains a proprietary database of working and planned landfill gas generation projects in New England. The graph below summarizes the sizes of landfill gas generation projects in SEA's database, ordered by size. The graph indicates that out of 52 New England landfill gas projects, only 2 projects (one operating) fall below the 150kW level. The clear majority of projects are sized at 1.5 MW or greater, with the overwhelming majority sized at 800 kW or more.



While the SEA database depicts New England projects (rather than Vermont only), and it is possible that SEA has not identified every micro-scale landfill gas project, the point is that the commercial scale for LFG projects (including expansions) in the region is 800 kW at a minimum, with most projects featuring sized at 1.5 MW or more. Such "large" scale projects produce the overwhelming majority of landfill gas generation in the region, and both of the recent landfill gas projects in Vermont (Coventry and Moretown) feature engine sizes of approximately 1.5 MW.

Turning to specific costs for landfill gas generation, the Department's model for the smaller scale Landfill Gas is much more in line with GMP's experience. For larger projects, GMP is aware of long-term PPAs that have been priced below the legislation's $0.12/kWh figure, and far less than the $0.256/kWh figure presented in Table 1. Consultant reports associated with renewable program evaluations in neighboring states also indicate that the cost structures for large scale landfill gas projects are materially less than $0.12/kWh. For example, NYSERDA's New York Renewable Portfolio Standard Cost Study Update (March 2008) estimated a cost range of 6.1 cents/kWh to 9.2 cents/kWh for projects in various geographic regions of New York.

If the standard offer price for large scale Landfill Gas is overstated, Vermont customers could substantially overpay for this class of resource. This is a particular concern because unlike some of the other renewable energy technologies, landfill gas projects tend to operate on a round-the-clock basis. This magnifies the danger of an excessive SO rate for this technology, particularly for projects larger than a few hundred kW. For example, a project featuring a single 1.5 MW engine operating at a 90 percent capacity factor would

produce about 11,800 MWh per year. Setting the SO rate even 2 cents/kWh above the level needed to support the project would result in an overpayment by Vermont ratepayers of about $236,000 per year, or more than $1 million in present value. Setting the SO rate for such a project at the "initial runs" rate of 25.6 cents/kWh (Table 1 of the cost report for micro-scale landfill gas projects) would obviously result in a much larger overpayment, in excess of $1 million per year.

GMP's recommendations for this technology are as follows:

- Create a Large Landfill Gas category, with an associated SO price that reflects a representative technology size. GMP recommends that the price for this category be set based on technology costs for the least-cost project size, presumably between 1 MW and 1.5 MW. This rate would apply to all landfill gas projects sized 200 kW or larger.
- For the new Large Landfill Gas category, there is no basis for establishing a SO rate higher than the statutory value of 12 cents/ kWh. The actual cost to develop large landfill is lower than this. GMP therefore recommends an initial SO price no higher than 9 cents/kWh when the Board sets final prices in January 2010.
- Having the smaller LFG category (for projects 200 kW or smaller) is reasonable, the 25.6 cents /kWh price has not been appropriately vetted and could overstate actual project cost structures. The Department's model more closely reflects an appropriate initial SO rate for small LFG.

Solar

Based on GMP's experience in solar area, we have seen the installed capital costs for larger scale projects, i.e. 150KW and up, that are much less than shown in Table 1. Our experience with this technology underscores that caution is needed because our costs are significantly lower than some of the numbers presented. GMP is able to build solar projects for under $.25/kWh and we are planning other projects with the expectation of even lower costs because the price of equipment is decreasing in 2010.

Conclusion

Throughout this process GMP has advocated for the lowest possible prices – ensuring that our customers do not pay more than necessary for the technologies introduced. GMP believes the SO prices are higher than they should or need to be; however we acknowledge that not everyone agrees with this position. Because there has not been adequate time to analyze pricing options and/or to determine appropriate least-cost pricing we suggest that the statutory SO prices are a good place to start. The Board can then use the time between now and January to resolve the pricing issues.